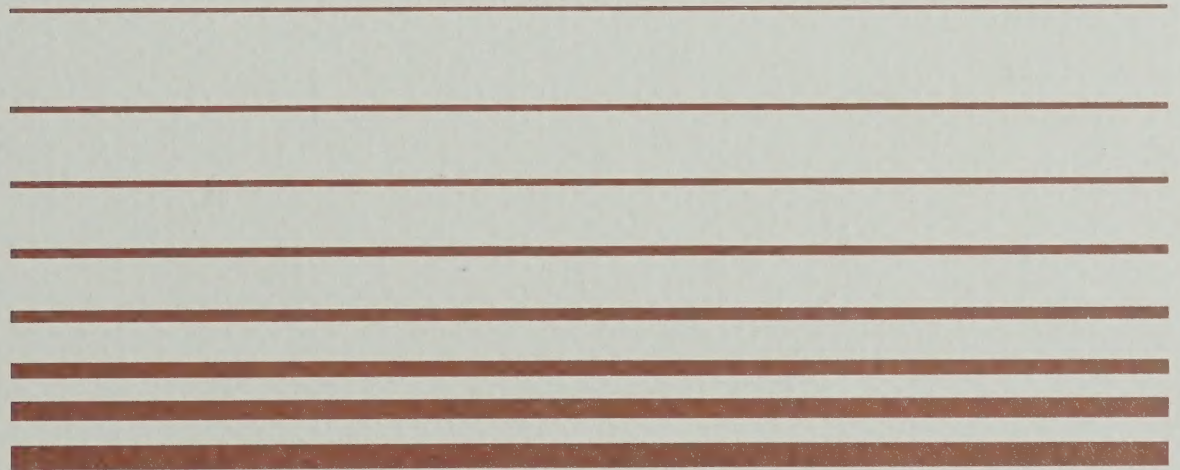



ANNUAL REPORT 1981



RealCap Holdings Limited



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RealCap Holdings Limited

Board of Directors

*David S. Ades, B.Sc., A.M.C.T.

President

RealCap Holdings Limited

Jeanne Ades

*Leonard E. Barlow

Retired Investment Dealer

Roger I. Coe, C.A.

Executive Vice-President and Secretary

RealCap Holdings Limited

*William H. Harper

President

W. H. Harper Inc.

*Peter Mackenzie

Financial Consultant

**Audit Committee*

Officers

David S. Ades, B.Sc., A.M.C.T.

President

Roger I. Coe, C.A.

Executive Vice-President and Secretary

Auditors

Price Waterhouse, Toronto

Banker

Royal Bank of Canada

Solicitors

Cassels, Brock, Toronto

Trustees and Transfer Agents

Guaranty Trust Company of Canada

Series A Debentures

Montreal Trust Company

Class A Shares, Series F Warrants

Stock Exchange Listing

Toronto Stock Exchange

Class A Shares REA.A

Series F Warrants REA.WT

RealCap Holdings Limited

2161 Yonge Street, Suite 604

Toronto, Ontario

M4S 3A6

Tel: (416) 486-7729

FINANCIAL HIGHLIGHTS

	1981	1980
Income (loss) before extraordinary item	\$ 400,000	\$ (348,000)
Net income	\$ 400,000	\$1,549,000
Income (loss) before extraordinary item per share	\$0.54	\$(0.47)
Dividends per share		
— Class A	\$0.20	\$0.25
— Common	\$0.20	\$0.20
Shareholders' equity	\$6,534,000	\$6,272,000
Shares outstanding		
— Class A	565,514	562,514
— Common	174,400	174,400
Book value per share	\$8.83	\$8.51
Market price of Class A shares		
— High	\$7.38	\$6.25
— Low	\$3.20	\$2.40
— December 31	\$3.30	\$6.12
Number of Class A shareholders . .	567	618

PRESIDENT'S REPORT

The year 1981 proved to be a year of consolidation for your Company. In an atmosphere of great economic uncertainty the Company has remained liquid. Many longer term investment proposals were reviewed and considered, but none were consummated.

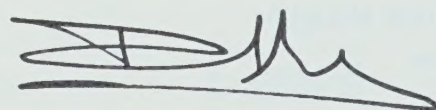
I am pleased to report that income before extraordinary item for the year ended December 31, 1981 was \$400,000 (54 cents per share) compared to a loss of \$348,000 in 1980. In the prior year there was an extraordinary net gain on the sale of a subsidiary of \$1,897,000. There was no extraordinary item in 1981.

The Company's marketable investment portfolio at the end of 1981 consisted of \$2,238,000 in preferred shares and \$3,251,000 in common equities and options, for a total of \$5,489,000 at cost. The market value of these securities was \$5,144,000. Part of this portfolio was financed by bank debt. The preferred share portfolio consisted primarily of a floating rate preferred and convertible preferreds. These preferred share investments are considered longer term in nature and provide the Company with high tax-free dividends and the possibility of longer term capital appreciation. During 1981, the Company started to invest in common equities listed on the Toronto Stock Exchange. The combination of dividends and capital gains during that period provided the Company with net returns higher than available from short term paper, while giving the Company the liquidity desired.

In an economy where profits have tended to decline in many sectors, the Company has reported an improved profit each quarter of 1981. I believe that the North American economy will continue to recede in 1982 and afford the Company better opportunities for longer term investments than it has in the past year. I also believe it is going through some basic changes, a type of industrial revolution, with some of the traditionally strong industries continuing to weaken and some of the newer ones coming into prominence.

We have been patient awaiting good opportunities, but believe that we have done well in so doing and preserving our liquidity. We will not invest on a longer term basis just for the sake of investing. Management will continue to seek out opportunities and to consider those which come to its attention. Management will be looking to invest on a longer term basis in industries that will provide the Company with above average capital gains and a continuous source of income. I hope and believe that 1982 will bring us these opportunities.

I look forward to another successful year in 1982.



David S. Ades
President and Chief Executive Officer
February 2, 1982

RealCap Holdings Limited

BALANCE SHEET

	December 31	
	<u>1981</u>	<u>1980</u>
ASSETS		
Cash and short-term investments	\$ —	\$2,086,000
Investment income due and accrued	134,000	200,000
Securities (Note 2)-		
Marketable	5,489,000	2,005,000
Other	4,275,000	4,500,000
Mortgages receivable (Note 3)	1,086,000	986,000
Income taxes recoverable	187,000	—
Other assets	87,000	81,000
Unamortized financing costs	106,000	115,000
	<u>\$11,364,000</u>	<u>\$9,973,000</u>
LIABILITIES		
Bank indebtedness (Note 3)	\$ 1,753,000	\$ 70,000
Accounts payable and accrued liabilities	443,000	553,000
Income taxes payable	—	269,000
Long-term debt (Note 4)	2,357,000	2,542,000
Deferred income taxes	277,000	267,000
	<u>4,830,000</u>	<u>3,701,000</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 5)	2,534,000	2,524,000
Retained earnings	4,000,000	3,748,000
	<u>6,534,000</u>	<u>6,272,000</u>
	<u>\$11,364,000</u>	<u>\$9,973,000</u>

APPROVED BY THE BOARD:

David S. Ades, Director

Roger I. Coe, Director

STATEMENT OF INCOME

	Year ended December 31	
	<u>1981</u>	<u>1980</u>
Income:		
Interest and dividends	\$ 871,000	\$ 636,000
Administration fees and interest income from former subsidiary company	—	318,000
Other	<u>45,000</u>	<u>83,000</u>
	916,000	1,037,000
Expenses:		
Interest—		
Bank indebtedness	38,000	61,000
Long-term debt	227,000	252,000
Other operating costs	<u>417,000</u>	<u>407,000</u>
	682,000	720,000
Operating income before income taxes	234,000	317,000
Income taxes recoverable (payable):		
Current	176,000	(22,000)
Deferred	<u>(10,000)</u>	<u>(4,000)</u>
	166,000	(26,000)
Net operating income	400,000	291,000
Equity loss in former subsidiary company	<u>—</u>	<u>(639,000)</u>
Income (loss) before extraordinary item	400,000	(348,000)
Extraordinary item:		
Extraordinary net gain on sale of shares and subordinated note of former subsidiary company after income taxes of \$519,000	<u>—</u>	<u>1,897,000</u>
Net income for the year	<u>\$ 400,000</u>	<u>\$1,549,000</u>
Earnings (loss) per Class A and common share:		
Net operating income	<u>\$ 0.54</u>	<u>\$ 0.40</u>
Income (loss) before extraordinary item	<u>\$ 0.54</u>	<u>\$ (0.47)</u>
Net income for the year	<u>\$ 0.54</u>	<u>\$ 2.10</u>
Fully diluted — Net income for the year (Note 7)	<u>\$ 0.54</u>	<u>\$ 1.78</u>

STATEMENT OF RETAINED EARNINGS

	Year ended December 31	
	<u>1981</u>	<u>1980</u>
Balance at beginning of year	\$3,748,000	\$2,375,000
Net income for the year	<u>400,000</u>	<u>1,549,000</u>
	4,148,000	3,924,000
Dividends (Note 5):		
Class A shares (20 cents per share; 25 cents per share in 1980)	113,000	141,000
Common shares (20 cents per share)	<u>35,000</u>	<u>35,000</u>
	148,000	176,000
Balance at end of year	<u>\$4,000,000</u>	<u>\$3,748,000</u>

STATEMENT OF CHANGES IN CASH POSITION

	Year ended December 31	
	<u>1981</u>	<u>1980</u>
SOURCE OF CASH:		
Operations*	\$ 395,000	\$ 280,000
Proceeds from issue of Class A shares	10,000	—
Mortgage receivable payments	20,000	20,000
Net proceeds on sale of shares and subordinated note of former subsidiary company after current income taxes of \$320,000	—	4,985,000
Net increase (decrease) in bank indebtedness	<u>1,683,000</u>	<u>(780,000)</u>
	2,108,000	4,505,000
USE OF CASH:		
Purchase of securities - net	3,259,000	2,005,000
Mortgage advance	96,000	—
Reduction of long-term debt	185,000	298,000
Dividends	148,000	176,000
Other - net	<u>506,000</u>	<u>(32,000)</u>
	4,194,000	2,447,000
Increase (decrease) in cash and short-term investments for the year	<u>(2,086,000)</u>	<u>2,058,000</u>
Cash and short-term investments at beginning of year	2,086,000	28,000
Cash and short-term investments at end of year	<u>\$ —</u>	<u>\$2,086,000</u>

*Represents net operating income before equity loss in former subsidiary company and extraordinary item and after adjustments for amortization of financing expenses and discount on mortgage and deferred income taxes.

AUDITORS' REPORT

To the Shareholders of RealCap Holdings Limited:

We have examined the balance sheet of RealCap Holdings Limited as at December 31, 1981 and the statements of income, retained earnings, and changes in cash position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1981 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE
Chartered Accountants

Toronto
January 21, 1982

NOTES TO FINANCIAL STATEMENTS

December 31st, 1981

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Securities

Stocks are carried at original cost after deducting any premiums received on the writing of call options against the underlying stock. Calls purchased are shown at cost and premiums received on puts sold are deducted. Gains and losses on sales of shares and options other than call options written against underlying securities and expired options are included in other income. Dividends are recognized in the statement of income when they have been earned.

(b) Financing costs

These costs are written off on a straight-line basis over the term of the related debt.

(c) Income taxes

Full provision for income taxes is made in the financial statements using the tax allocation method, whereby income taxes related to timing differences are included in deferred income taxes.

2. SECURITIES

(a) Marketable

	December 31, 1981	
	Cost	Market
Stocks —		
Preferred	\$2,238,000	\$1,878,000
Common	3,264,000	3,274,000
Options		
(Note 9)	(13,000)	(8,000)
	<u>\$5,489,000</u>	<u>\$5,144,000</u>

	December 31, 1980	
	Cost	Market
Bonds —		
Government		
of Canada .	\$ 199,000	\$ 178,000
Corporations .	592,000	573,000
	<u>791,000</u>	<u>751,000</u>
Stocks —		
Preferred	1,194,000	1,176,000
Common	20,000	20,000
	<u>1,214,000</u>	<u>1,196,000</u>
	<u>\$2,005,000</u>	<u>\$1,947,000</u>

(b) Other

Consists of 427,500 7-1/2% cumulative redeemable non-voting preference shares having a par value of \$10 each of Central Trust Company. The shares have a 5% annual sinking fund requirement of 22,500 shares and an obligation to purchase the remainder of the shares in 1990. Out of these total shares, 75,000 are held in escrow as outlined in Note 9.

3. MORTGAGES RECEIVABLE

Included in mortgages receivable is mortgage loan of \$990,000, which matures on March 15, 1984 and is stated at its outstanding principal amount less unamortized discount. This mortgage is pledged as security for the bank indebtedness.

4. LONG-TERM DEBT

Long-term debt of \$2,357,000 (1980 — \$2,542,000) consists of 9-1/4% sinking fund debentures, Series A, due July 3, 1993.

The Trust Indenture securing the sinking fund debentures Series A contains, among other things, restrictions as to the issuing of additional debentures and of other secured debt and on

paying dividends. The Company has covenanted to pay by way of a mandatory sinking fund, sums sufficient to retire \$165,000 principal amount of debt on or before July 3 in each of the years 1982 to 1993 inclusive.

5. CAPITAL STOCK

Details of authorized and issued capital:

Authorized—

- 4,000,000 cumulative (20 cents) non-voting participating Class A shares without par value
- 360,000 common shares without par value

	December 31	
	1981	1980
Issued—		
565,514		
(1980 —		
562,514)		
Class A shares	\$2,200,000	\$2,190,000
174,400 •		
common		
shares.	334,000	334,000
	<u>\$2,534,000</u>	<u>\$2,524,000</u>

The Class A shareholders are entitled to a cumulative preferential dividend of 20 cents per share per annum. No dividend shall be paid on the common shares in any year unless the dividend requirements for Class A shares including arrears have been met. The Class A and common shares participate equally in dividends declared in excess of 20 cents per share per annum.

At December 31, 1981 there are 175,000 Series F share warrants outstanding which entitle the holders to acquire one Class A share for each warrant held to July 3, 1983 at an exercise price of \$7.75.

In 1980, options were granted to senior offices of the Company entitling them to purchase 5,000 Class A shares and at the option of the holder 10,000 Class A and/or common shares for a total of 15,000 shares at a price of \$3.00 per share. During the year 3,000 Class A shares

were issued. The options to purchase these shares expire at the rate of 3,000 shares per year on each November 18 anniversary date up to 1985.

6. INCOME TAXES

The income tax provision included in net operating income is different than the prevailing corporate tax rate primarily because income includes non-taxable dividends.

7. EARNINGS PER SHARE

Fully diluted earnings per share reflect the result as if the Series F share warrants and stock options with dilutive effects outstanding at the end of the year had been exercised at the beginning of the year. For the purpose of these calculations, earnings of \$97,000 have been imputed at an after tax rate of 7%.

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid to directors and senior officers of the Company amounted to \$218,000 in 1981 and \$245,000 in 1980.

9. CONTINGENCIES

- (a) As a result of the sale of put options the Company may be required to purchase certain common shares for a maximum aggregate consideration of \$975,000.
- (b) Under the agreement of purchase and sale of May 16, 1980, between the Company and Central Trust Company, the Company assumes responsibility for some outstanding court actions to which the former subsidiary, Federal Trust Company, is a party and as security therefore agreed to place in escrow 200,000 of the preference shares received. During the year 125,000 of these shares were released from escrow. In the opinion of management, adequate provision has been made in the financial statements for any potential losses that still may be incurred.

